

**Statement of Andrew Maner
Chief Financial Officer
Department of Homeland Security**

**Before the House Government Reform Subcommittee on
Government Management, Finance and, Accountability**

July 27, 2005



**Statement of Andrew Maner
Chief Financial Officer
Department of Homeland Security**

**Before the House Government Reform Subcommittee on
Government Management, Finance and, Accountability**

July 27, 2005

Mr. Chairman and honorable members of the Subcommittee, I want to thank you for inviting me to testify today regarding the Department's implementation of the DHS Financial Accountability Act – P.L. 108-330 and other financial management issues.

Leadership and Vision

As noted by Ms. Hale in her testimony, DHS leadership is committed to responsible financial management and places it as one of their top priorities. As the Chief Financial Officer (CFO) of the Department of Homeland Security, I am especially aware of the importance of sound financial management, and I am responsible for improving financial management by taking effective action to address our shortcomings and weaknesses. We have made great progress in the less than two-and-a-half years since DHS was formed, which I will share with you today, along with our many ongoing improvement efforts.

The vision for financial management at DHS is one where there exists a framework of people, processes and systems in which DHS stakeholders, such as our leaders and managers, have accurate, timely and useful information to make effective decisions in support of the mission. This vision means: that we can support an unqualified opinion on our financial statements; that we can make reasonable assurances over our internal controls on financial reporting; that we can relate our spending to our performance; that we have integrated financial management systems; and that we have a cadre of dedicated, highly talented financial managers who pull all of this together. At DHS, I am fortunate to have an outstanding financial management team, both throughout my Office of the Chief Financial Officer and in the component organizations of DHS. Their yeomanly efforts drive our success.

In August 2004, former Secretary Ridge initiated the Department's functional integration effort to bring all the functional experts under one integrated method of operation. As a result, a series of Management Directives (MD) were approved in October 2004. MD 0005, the Financial Management Line of Business Functional Integration Management Directive, established the DHS authorities and responsibilities of my office. The directive is the principal

document for leading, governing, integrating, and managing financial management functions throughout DHS.

Realizing financial management excellence requires every executive, manager, and employee in the Department help create an environment that rewards collaboration, promotes best practices, and shares accountability for the performance of the management support systems that enable the Department to fulfill its mission. This concept of functional integration mandates that both component heads and key functional experts are responsible for our strategic goal of organizational excellence in financial management. As Chief Financial Officer, I am accountable for designing the system to optimize the financial management function, setting the standards for functional performance, creating department-wide policies and processes, providing the automated solutions to yield greater efficiencies, and nurturing the development and success of centers of excellence. Component heads will likewise be accountable to support these progressive business functions as a key part of their commitment to mission accomplishment.

electronically Managing enterprise resources for government efficiency and effectiveness (eMerge²)

Last year when I testified before this Subcommittee I discussed the Department's plans to further streamline, consolidate and improve financial management throughout the Department by implementing a unified financial management system, eMerge².

The eMerge² Program will provide a long-term solution to many of the Department's current financial deficiencies. The eMerge² Program's end-state vision is to improve systems and processes in DHS; reduce material weaknesses, systems and providers; and increase efficiency and effectiveness. Since I last testified before this committee, DHS has completed an exhaustive, department-wide requirements definition and design phase, hired a systems integrator and has completed an enterprise-wide buy for the core accounting software.

This Spring, in conjunction with Secretary Chertoff's Second Stage Review, we began a reevaluation of our original planned approach to delivering improved financial systems to DHS organizations. The program review objectives are to see if there are additional opportunities to lower the cost and risks and to accelerate the implementation of a department-wide financial management system.

Concurrently with the development of the long-term solution, the eMerge² Program Office is developing DHS-wide financial performance metrics which will be made available to the DHS CFO community via an internal website. This dashboard will be vital to achieving DHS' vision of providing meaningful and

useful information to managers. It will also be vital to tracking our financial performance as a Department.

Financial Reporting Improvements

As we develop our new system, we continue to make improvements in our financial processes and reporting. It will do us little good to adapt to a new system without making improvements in some basic areas where we have significant weaknesses. The independent auditors were unable to express an opinion as to the reliability of the information in DHS' financial statements in the fiscal year 2004 audit. DHS faced the challenge of inheriting 18 material weaknesses from its component agencies when it was formed. Having eliminated nine of those material weaknesses and consolidating the remaining nine into seven material weaknesses and five reportable conditions, DHS appeared to be making progress by the end of fiscal year 2003. However, for fiscal year 2004, the auditors found ten material weaknesses, which was an increase of three over 2003 and which raises the question from this Subcommittee as to whether DHS is losing ground on financial management.

In fact, DHS has made meaningful progress in its financial reporting since its inception, and has not lost ground. Material weaknesses increased in fiscal year 2004 due to an increase in the scope of the audit. In fiscal year 2003, our first year of operation, the audit scope was limited to a Balance Sheet and Statement of Custodial Activity. It was not a true baseline of where DHS was in fiscal year 2003, but rather where the legacy organizations were when they came into DHS.

Creating DHS was a complex undertaking. New financial offices had to be created. Major agencies were blended and mixed together. Agencies whose weaknesses were not material in their legacy Departments took on a different level of materiality at DHS. In FY 2004, which was truly the baseline audit for DHS, we increased the audit scope to include the:

- Statement of Net Cost,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources, and
- Statement of Financing.

Obviously, the harder and deeper you test a system, the truer and more complete an assessment you get, and the more weaknesses you are likely to find. That was the case for fiscal year 2004, and why fiscal year 2004 should be viewed as the honest baseline for DHS' consolidated audit. My goal is to get to bedrock - to know all of our weaknesses, so that we can attack them and correct them.

But audit scope aside, the Department was designated by GAO as a high risk agency from inception. The Department continues to undergo significant

transformational challenges including the tri-bureau merger from the inception of DHS and the recent Second Stage Review. Regardless of these transformational challenges, the Department is making tremendous efforts to ensure these inherited weaknesses do not become ingrained into our operations. There is unquestionably much hard work that remains to be done, and we are making progress.

The fiscal year 2004 audit identified the DHS financial management structure as a material weakness in internal control. The auditor noted that although progress was made in fiscal year 2004, “the CFO has acknowledged that much work remains to complete a fully integrated financial management and reporting structure to accommodate all transferred agencies and programs and to fully support the DHS mission.”

We have made great improvements in this area, and I fully anticipate in fiscal year 2005 that the finding’s recommendations will be substantially implemented. Significant accomplishments to date include:

- We instituted strong quality control processes in the Office of the CFO and issued Performance and Accountability Report (PAR) Guidance to DHS bureaus early on in the fiscal year.
- We hired and contracted additional accounting personnel that possess complementary technical skills including proficiency with the standard general ledger, financial reporting, system maintenance, internal controls, and financial management policy. In addition, our fiscal year 2006 budget request includes five additional FTEs.
- We initiated a comprehensive internal control assessment of the consolidated financial reporting process, using the criteria defined by the U.S. Government Accountability Office (GAO) and the recent revisions to OMB Circular A-123 and the DHS Financial Accountability Act.
- We have open communication and regular reporting with the Secretary and Deputy Secretary, and other key stakeholders such as the IG and the auditors.
- We are actively engaged with DHS components through weekly Financial Management Working Groups and Internal Control Committee meetings.
- We have corrective action plans in place in all organizations with material weaknesses that spell out plans for how and when the weaknesses will be remediated.
- The Secretary has clearly communicated to the Department our goals for financial improvement.

- I hired a Deputy CFO to assist in driving internal controls and best practices into Department and component financial management operations. Our Deputy CFO led the Secretary's Second Stage Review agenda item for improving financial management.

We understand the challenges that we must address and have set forth a three-year strategy for receiving an unqualified opinion on our consolidated financial statements and eliminating all material weaknesses.

Internal Controls

Finally, I would like to address one of the unique and most challenging financial management requirements we face at DHS - the audit of internal controls over financial reporting. With respect to internal controls, Section 4 of P.L. 108-330 requires DHS to include in its Performance and Accountability Report for fiscal year 2005, an assertion of internal controls that apply to financial reporting by DHS. In addition, Section 4 requires that DHS include an audit opinion of its internal controls over its financial reporting in DHS' Performance and Accountability Reports beginning with fiscal year 2006.

While I believe that GAO's criteria (GAO-05-321T) for assessing whether an organization is ready to support such an audit would suggest that DHS is not yet ready, it is nonetheless a requirement which we are addressing with vigor. The task of examining and documenting internal controls over financial reporting is time consuming and challenging, as many in the private sector would attest, but we agree that it is imperative that DHS move as swiftly as possible to improve financial management and correct identified material weaknesses. This will be taxing on a thin financial management cadre that is still coping with the changing organizational structure of DHS and fixing the weaknesses already identified in the financial audit. But in the long run, this will build a sustainable and reliable financial management framework that will withstand audit scrutiny and assure all that DHS knows how it uses its resources, and that resources are used wisely. DHS will lead the Federal Government in this regard.

As Secretary Chertoff reported to you last month, DHS has initiated extraordinary steps to organize the Department to prepare for an audit of our internal controls over financial reporting. I am very pleased with our trailblazing implementation of an internal controls process. Significant accomplishments to date include:

- Last December 2004, I directed the DHS Chief Financial Officer Council to nominate senior executives and senior staff to establish a DHS Internal Control Committee (ICC) responsible for implementing the internal control provisions of P.L. 108-330.

- Initial ICC activities included developing a charter to set forth the applicable oversight, responsibilities, structure, and management of the group. A copy of our Charter, approved in March 2005, is provided as a handout to my testimony.
- In developing our strategy we proactively reached out to the: OMB, CFO Council Financial Management Policies and Practices Subcommittee, DHS OIG and our independent public accountant. In addition, we have been contacted by numerous CFO Act Agencies to share experiences in developing our internal control program.
- In May 2005, with the assistance of a public accounting firm, we developed an implementation guide for complying with the internal control provisions of P.L. 108-330. Our implementation guide provides the strategy and framework for implementing the DHS Financial Accountability Act. A copy of our implementation guide is respectfully submitted for the Congressional record.
- Over the summer we will be executing a detailed and technical seven step plan to support the Secretary's fiscal year 2005 assertion and prepare for the fiscal year 2006 audit of internal controls over financial reporting. These seven steps include:
 1. Identifying the maturity level of internal control over financial reporting.
 2. Assessing entity-level controls using the GAO Internal Control Management and Evaluation Tool. The GAO Tool will be the assessment methodology to support the Secretary's assertion in fiscal year 2005.
 3. Identifying financial reports to be included in the assessment.
 4. Identifying significant line items and related accounts, disclosures, and processes/cycles.
 5. Determining multiple-location coverage.
 6. Other considerations including the year end financial reporting process, laws and regulations, system considerations, etc.
 7. Summarizing the use of services organizations.
- As discussed earlier, we've initiated a comprehensive internal control assessment of the consolidated financial reporting process within the OCFO. In addition, the U.S. Coast Guard, one of our largest components, has initiated process level documentation pilots.
- Throughout the year we have also made progress in developing a corrective action planning process. For example in fiscal year 2004 our independent auditors reported we did not prepare corrective actions for all material weaknesses and reportable conditions. This year, we have

developed corrective action plans for all material weaknesses and reportable conditions and we are also developing a Management Directive and Process Guide to ensure these corrective action plans demonstrate results.

- With regard to provisions of the Financial Accountability Act related to Department-wide management controls, we have established an integrated framework to coordinate our overall internal control assessment with all other internal control-related activities. This framework includes various statutory requirements and overall management or functional areas that cut across many if not all of the DHS Components and mission areas.

I hope the Subcommittee and our partners at the GAO and OIG would agree that the Department is moving as swiftly and prudently as possible in implementing the internal control provisions of the Act. Despite the tremendous amount of work we are doing, we remain concerned about rushing to compliance at the expense of an outcome that does not make sense. In judging our progress on the Act, I ask the Subcommittee to consider the following challenges:

- The Department, still undergoing a significant transformation, is one of the largest and most complicated of the CFO Act Agencies.
- Our current maturity level of internal control over financial reporting varies across our 14 reporting entities, although most material weaknesses are concentrated within two Components.
- Although we are making progress on an assessment methodology to put us in a position to attest to the effectiveness of internal control over financial reporting, the amount of documentation and testing required for an independent audit is significant.

Implementation concerns and differences aside, the Department's initial efforts are earnest, credible, and I intend to lead the federal government in establishing best practices in reporting on internal control.

Closing

In closing, let me assure the Subcommittee, the Department of Homeland Security and I are committed to all parts of the DHS Financial Accountability Act and we believe effective internal control is key to accountability. DHS leadership is committed to developing a culture of integrity, accountability, and effectiveness. Finally, I want to emphasize that we will continue to work with the Congress, the OMB, the DHS OIG, and the GAO to ensure the inherited weaknesses do not become ingrained into our operations.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.